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FM AMEMBASSY NEW DELHI  
TO RUEHC/SECSTATE WASHDC 5592  
INFO RUEHCG/AMCONSUL CHENNAI 0317  
RUEHCI/AMCONSUL KOLKATA 9901  
RUEHLH/AMCONSUL LAHORE 3956  
RUEHBI/AMCONSUL MUMBAI 9512  
RUEHPW/AMCONSUL PESHAWAR 4529  
RUEHIL/AMEMBASSY ISLAMABAD 3182  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RULSDMK/DEPT OF TRANSPORTATION WASHDC  
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 02 NEW DELHI 002280

SIPDIS

SENSITIVE  
SIPDIS

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD  
DEPT PASS TO USTR DHARTWICK/CLILIENFELD/AADLER  
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
STATE FOR SCA/INS MICHAEL NEWBILL AND EB/TRA JEFFREY HORWITZ AND TOM  
ENGLE

E.O. 12958: N/A

TAGS: [EAGR](#) [EFIN](#) [EINV](#) [ETRD](#) [IN](#)  
SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS

**¶1.** (U) Below is a compilation of Economic highlights from Embassy New Delhi for the week of May 7-11, 2007.

STARBUCKS PENDING INVESTMENT APPLICATION

**¶2.** (SBU) On May 10, Econoffs held a conference call with Hong Kong based Starbucks representative Mike Yeager, Finance & Business Development, Starbucks Coffee Asia Pacific. Yeager reviewed Starbucks' revised application to the Foreign Investment Promotion Board (FIPB). He confirmed that Starbucks withdrew their initial proposed equity stake to address concerns verbally expressed by the Ministry of Commerce. Currently, Starbucks proposes to enter as a non-equity franchisor through a franchisee partnership, where 51 percent of the franchise is owned by a non-resident Indian, who in this instance, the government deemed to be a foreign investor. The application has been sent to the Ministry of Finance, which Starbucks expects to rule on it at its next planned FIPB meeting this month. Starbucks seems to have reasonable expectations about the pace and scope of policy change in India. For example, in spite of the extraordinarily high tariffs on whole bean coffee, Starbucks is developing a business model that does not assume any tariff relief. Plans are to start in Delhi and Mumbai metro areas. Yeager appreciated the Embassy contact and asked that we pass along any further details about their FIPB application status and single brand retail regulations.

FORWARD MOVEMENT FOR SPECIAL ECONOMIC ZONES

**¶3.** (U) The Board of Approval (BOA) met on May 9 and approved 16 SEZ development proposals, which will soon be notified by the states in order to begin their development. One surprise was that the BOA deferred its decision on Mukesh Ambani's Navi Mumbai zone. Press speculation indicates that there are land-related issues. The GOI is still awaiting the land rehabilitation package announcement from the Prime Minister's office (previous statements indicated an end of April deadline.) The BOA is scheduled to reconvene on May 31 to continue reviewing the 370 pending proposals, of which approximately 161 already have land identified. While there is positive movement forward, controversies still continue. Another recent agitation

occurred in Nandigram, West Bengal (WB) even though WB dropped the idea of SEZs for that particular area. The entire GOI SEZ program continues to struggle because of the sensitive issue of land acquisition and rehabilitation issues especially in West Bengal and Orissa.

CPI-M Spokesman Opines on the Economy

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¶4. (SBU) Emboffs met with CPI-M Spokesman Nilotpal Basu on May 9 and discussed current economic dynamics in the country. First up was discussion of CPI-M's views on the new budget and its allocations. Basu acknowledged that allocations for health, education, and rural development had improved, but stated they were not sufficient. The government needed to spend more money on investment in rural infrastructure, he claimed, and "big company" spending (implicitly meaning retail plans by Reliance and others) is not sufficient to address rural India's needs. Econoff (thinking of poorly implemented programs such as wheat and rice ration cards and kerosene subsidies) asked Basu's views on proposed subsidy reforms which could free up more government revenues for rural investment. Basu instead criticized corporate subsidies, saying that effective tax rates are too low, especially when corporate profits are so high.

¶5. (SBU) Basu then discussed the need for increased manufacturing, to create needed jobs for the rural poor. They need an alternative, he explained, because the land cannot support everyone in the agricultural sector. It is the government's responsibility to build the infrastructure needed to promote manufacturing. When asked about Special Economic Zones (SEZs), Basu's voice rose a bit. Too much space within the proposed zones has been allowed for speculative real estate development and not enough for manufacturing. Unprompted, he mentioned the recent violence at

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Nandigram, regretting the loss of life but defending the CPI-M by saying that as soon as the tragic incident occurred, the party backed off because it was not trying to force anyone off the land.

¶6. (SBU) Land compensation and resettlement were central issues that must be decided, Basu claimed. The government must have a policy that provides alternative livelihoods for the landless workers as well as the landowners. Basu said rural people are very smart; they will be able to assess whether an offer is good and are not tied emotionally to their land if they can see the livelihood offer is better. He also asserted that Reliance wants too much land for its proposed SEZ in Mumbai. (Note: See para 3 above for details. The government Board of Approval this week postponed decision on Reliance's proposal, even as it approved more than a dozen others; this may be because of resistance from the Left. End note.)

¶7. (SBU) Bio note: Basu was impressively knowledgeable about India's macroeconomic and fiscal situation, citing tax revenue growth, social indicators, agriculture's share of GDP, and much more with ease. He is known as a straightshooter and demonstrated this with his direct and often critical comments. At the same time, his positions were mostly pragmatic, with little ideological bent, and some of his observations have a broader audience than just the Left parties.

Branchless Banking Models Being Explored

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¶8. (SBU) Econoff attended two presentations this week that demonstrated growing interest--and technological capacity--in providing banking services to poor and remote villages across India. India's largest private bank, ICICI, demonstrated its new rural "smart card" which utilizes microfinance groups to electronically enroll and provide banking services to rural areas that do not have a bank branch. To balance customer simplicity and know your customer compliance, the RBI has permitted ICICI to accept local government (panchayat) leaders' statement of villager identity, which is then captured and maintained with the use of biometrics, by digitally recording the customer's fingerprints. Future customer

transactions can only occur if the customer's fingerprints and smart card match the bank's digital records. ICICI currently hopes to get six million rural customers on smart cards by the end of the year, although many of those initially will be existing customers who now use only paper transactions. The process will help build credit histories--and credit patterns--that ICICI will use to develop customized banking products for these low income rural customers.

¶9. (SBU) A further sign of growing interest in the viability of low-income financial inclusiveness is a visit this week by a Washington-based consortium of bilateral and multilateral donor agencies. The group, CGAP, is examining the regulatory environment for implementing in India emerging types of branchless banking in different countries, such as the Philippines or Brazil. The group provided an initial assessment of the RBI's perspective on this new banking model: the central bank regards existing microfinance institutions, self help groups, and public sector banks as the main actors for rural banking. The RBI's cautiousness is exemplified in its reaction to Bharti Enterprises' proposal to transmit worker remittances over cellular phones (Bharti owns large Indian telecom company Airtel), a system that is growing fast in the Philippines. The RBI only permits phone to phone transmissions--with no ability to deposit or withdraw money except at banks--and Bharti is not permitted to use airtime dealers as agents.

¶10. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>

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